

**COMMUNITY WATER FACILITY LOAN FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2011 AND 2010**

## COMMUNITY WATER FACILITY LOAN FUND

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the accompanying financial statements of the business-type activities of the Community Water Facility Loan Fund as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Community Water Facility Loan Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Community Water Facility Loan Fund's management. Our responsibility is to express opinions on these financial statements based on our audits.

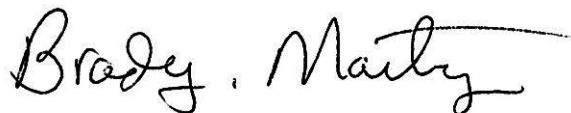
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Community Water Facility Loan Fund and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Community Water Facility Loan Fund, as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America .

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, on our consideration of the Community Water Facility Loan Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Brady, Martz". The signature is written in a cursive, flowing style with a long horizontal line extending from the end.

**BRADY, MARTZ & ASSOCIATES, P.C.**

February 27, 2012

**COMMUNITY WATER FACILITY LOAN FUND**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2011 AND 2010**

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The management discussion and analysis of the Community Water Facility Loan Fund's (Fund) financial performance provides an overview of the Fund's financial activities for the fiscal years ended December 31, 2011 and 2010. Please read it in conjunction with the financial statements of the Fund.

**FINANCIAL HIGHLIGHTS:**

The purpose of this revolving Fund is to provide supplementary financing in conjunction with federal monies received directly by the community for construction, enlargement, extension, or other improvement of community water facilities. The water system loan and/or grant program is administered by the Rural Development Utility Programs (RDUP), one of the departments of Rural Development, which is an agency of USDA. The loans made by this Fund are subject to a Memorandum of Understanding dated April 25, 2005 between the Bank of North Dakota and the Rural Development Utility Programs (RDUP).

There were no new loans made by the Fund in 2011. There were two new loans made by the Fund in 2010 to communities totaling \$738,000. The Fund is able to make a loan for up to 50% of the total cost of the project. The current interest rate to be charged based on North Dakota statute is 3%.

There are currently 53 loans. The gross amount of outstanding loans is \$16.1 million with an allowance for loan losses of \$286,000, for net loans of \$15.9 million, a decrease of \$1,172,000 from the prior year.

Cash available for investment in loans at the end of calendar 2011 and 2010 was \$6,054,000 and \$4,468,000, respectively. There was one loan commitment outstanding for \$1,818,400 as of December 31, 2011 and 2010.

**REQUIRED FINANCIAL STATEMENTS:**

The Fund is an enterprise fund and uses the accrual basis of accounting. The basic financial statements include the balance sheet, statement of revenues, expenses, and changes in fund net assets, and statement of cash flows. The balance sheet provides readers the assets and liabilities of the Fund, with the differences between the two reported as net assets. The statement of revenues, expenses, and changes in fund net assets identifies the operating performance of the Fund for the calendar year. The statement of cash flows identifies cash flows from operating activities and investing activities and provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**COMMUNITY WATER FACILITY LOAN FUND**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
**DECEMBER 31, 2011 AND 2010**

**CONDENSED BALANCE SHEETS**  
**DECEMBER 31, 2011, 2010 AND 2009**

(In Thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash deposits	\$ 6,054	\$ 4,468	\$ 3,636
Loans, current portion	665	665	673
Interest receivable	202	198	194
Total current assets	6,921	5,331	4,503
<b>NON CURRENT LOANS, NET</b>	<u>15,193</u>	<u>16,365</u>	<u>16,764</u>
Total assets	<u>\$ 22,114</u>	<u>\$ 21,696</u>	<u>\$ 21,267</u>
<b>CURRENT LIABILITIES</b>	\$ 21	\$ 22	\$ 22
<b>NET ASSETS - UNRESTRICTED</b>	<u>22,093</u>	<u>21,674</u>	<u>21,245</u>
Total liabilities and net assets	<u>\$ 22,114</u>	<u>\$ 21,696</u>	<u>\$ 21,267</u>

*Loans*

On an aggregate basis, the net loan portfolio decreased by \$1,172,000 or 6.8%. There were no new loans made during 2011. There were two loans made during 2010 totaling \$738,000 and two new loans made during 2009 totaling \$1,924,000. There were no delinquent or nonaccrual loans as of December 31, 2011, 2010 and 2009. There were no loan charge-offs during 2011, 2010 and 2009.

*Net Assets*

At December 31, 2011 and 2010, net assets were \$22.1 million and \$21.7 million, respectively. Loans are funded directly from the net assets of the Fund. The Fund is directed by the North Dakota Industrial Commission. The Bank of North Dakota supervises and administers the Fund and the loans made by the Fund.

**COMMUNITY WATER FACILITY LOAN FUND**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
**DECEMBER 31, 2011 AND 2010**

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

	(In Thousands)		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
OPERATING REVENUES	\$ 498	\$ 509	\$ 502
OPERATING EXPENSES	<u>88</u>	<u>91</u>	<u>91</u>
OPERATING INCOME	410	418	411
NONOPERATING REVENUES	<u>9</u>	<u>11</u>	<u>17</u>
CHANGE IN NET ASSETS	419	429	428
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>21,674</u>	<u>21,245</u>	<u>20,817</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 22,093</u>	<u>\$ 21,674</u>	<u>\$ 21,245</u>

*Revenue*

Revenue is from interest accrued on loans outstanding. The interest rates earned on these loans range from 2% to 3%.

*Expenses*

There are only two expenditures incurred by this Fund. Bank of North Dakota is paid an administrative fee of 1/2% of the outstanding loan balances. The other expenditure is to have an independent audit performed of the financial records.

*Nonoperating Revenue*

Nonoperating revenue represents interest earned on the cash balance.

*Changes in Net Assets*

At December 31, 2011, net assets were \$22,093,000, an increase of 1.9%. At December 31, 2010, net assets were \$21,674,000, an increase of 2.0%.

**CONTACTING THE FUND'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bank of North Dakota, P.O. Box 5509, Bismarck, North Dakota 58506-5509.

**COMMUNITY WATER FACILITY LOAN FUND**  
**BALANCE SHEETS**  
**DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash deposits at the Bank of North Dakota	\$ 6,053,894	\$ 4,468,329
Loans, current portion	665,397	665,089
Interest receivable	<u>201,993</u>	<u>197,848</u>
Total current assets	6,921,284	5,331,266
<b>NONCURRENT ASSETS</b>		
Loans, net of allowance for loan losses of \$286,000 in 2011 and 2010	<u>15,192,250</u>	<u>16,364,510</u>
Total assets	<u><u>\$ 22,113,534</u></u>	<u><u>\$ 21,695,776</u></u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Due to the Bank of North Dakota	\$ 20,738	\$ 21,732
<b>NET ASSETS</b>		
<b>UNRESTRICTED</b>	<u>22,092,796</u>	<u>21,674,044</u>
Total liabilities and net assets	<u><u>\$ 22,113,534</u></u>	<u><u>\$ 21,695,776</u></u>



**COMMUNITY WATER FACILITY LOAN FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 497,691</u>	<u>\$ 508,783</u>
OPERATING EXPENSES		
Administrative fees	84,930	87,932
Other expenses	<u>3,200</u>	<u>3,000</u>
	<u>88,130</u>	<u>90,932</u>
OPERATING INCOME	409,561	417,851
NONOPERATING REVENUES		
Investment income	<u>9,191</u>	<u>11,175</u>
CHANGE IN NET ASSETS	418,752	429,026
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>21,674,044</u>	<u>21,245,018</u>
TOTAL NET ASSETS, END OF YEAR	<u><u>\$ 22,092,796</u></u>	<u><u>\$ 21,674,044</u></u>

**COMMUNITY WATER FACILITY LOAN FUND**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES		
Payment of administrative fees to the Bank of North Dakota	\$ (85,924)	\$ (88,461)
Payment of other expenses	<u>(3,200)</u>	<u>(3,000)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(89,124)</u>	<u>(91,461)</u>
INVESTING ACTIVITIES		
Loan interest received	493,546	504,669
Investment income received from the Bank of North Dakota	9,191	11,175
Loans advanced	-	(738,000)
Proceeds from principal collections on loans	<u>1,171,952</u>	<u>1,145,978</u>
NET CASH FROM INVESTING ACTIVITIES	<u>1,674,689</u>	<u>923,822</u>
NET CHANGE IN CASH	1,585,565	832,361
CASH, BEGINNING OF YEAR	<u>4,468,329</u>	<u>3,635,968</u>
CASH, END OF YEAR	<u><u>\$ 6,053,894</u></u>	<u><u>\$ 4,468,329</u></u>
RECONCILIATION OF OPERATING INCOME TO		
NET CASH USED FOR OPERATING ACTIVITIES		
Operating income	\$ 409,561	\$ 417,851
Adjustments to reconcile operating income		
to net cash used for operating activities		
Reclassification of loan interest income to other activities	(497,691)	(508,783)
Increase (decrease) in due to the Bank of North Dakota	<u>(994)</u>	<u>(529)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u><u>\$ (89,124)</u></u>	<u><u>\$ (91,461)</u></u>

**COMMUNITY WATER FACILITY LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

Section 6-09.5 of the North Dakota Century Code (NDCC) established the Community Water Loan Fund (Fund). The purpose of the Fund is to provide supplementary financing in conjunction with federal monies received directly by the community for the construction, enlargement, extension, or other improvement of community water facilities. The Fund is a revolving fund, and all monies transferred into the Fund, interest earned on the Fund monies, and collections of interest and principal on Fund loans are used for the purpose of the Fund.

The Bank of North Dakota supervises and administers the Fund and the loans made by the Fund. In 2005, the Bank of North Dakota entered into a Memorandum of Understanding with Rural Utilities Service, an agency of the USDA. The Memorandum provides guidance for processing combined loans between the Fund and Rural Utilities Service. The Fund has a pro rata lien on loans made under the Memorandum.

All loans made by the Fund are made in combination with loans and/or grants made by Rural Utilities Service. NDCC states that all loans from the Fund shall not exceed fifty percent of the cost of a community water facility project. Such loans must bear interest at a rate of three percent per annum. Principal and interest payments on a loan may be deferred for up to three years to provide for a community water facility to become self-supporting.

*Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the Fund should include all component units over which the Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or, (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Fund.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The Fund is included as part of the primary government in the State of North Dakota's reporting entity.

*Accounting Standards and Adoptions of Accounting Policies*

The Fund follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities. In accordance with GASB Statement No. 20, the Fund follows all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with the GASB pronouncements.

*Fund Accounting*

The Fund is an enterprise fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**COMMUNITY WATER FACILITY LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2011 AND 2010**

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*Basis of Accounting and Measurement Focus*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Net assets is segregated into invested or capital assets, net of related debt, and unrestricted components. The statements of revenues, expenses and changes in fund net assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statements of cash flows present the cash flows for operating activities, non-capital financing activities, and investing activities.

*Use of Estimates*

In preparing financial statements in conformity with generally accepted accounting principles in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses.

*Significant Group Concentrations of Credit Risk*

All of the Fund's business is with customers within the State of North Dakota. Concentrations of credit risk are present in the construction and operation of community water facilities.

*Cash and Cash Equivalents*

The Fund considers all cash and time deposits with original maturities of three months or less to be cash and cash equivalents for the purpose of reporting cash flows.

*Loans*

Loans are stated at their outstanding unpaid principal balance. Interest income on loans is accrued at a specific rate of 2%-3% on the unpaid principal balance.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

*Allowance for Loan Losses*

The Fund uses the allowance method in providing for loan losses. Accordingly, the allowance is increased or reduced by the current year's provision for loan losses charged to operations and reduced by net charge-offs.

The adequacy of the allowance for loan losses and the provisions for loan losses charged to operations are based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. Loans are charged to the allowance when management believes the collection of the principal is doubtful.

**COMMUNITY WATER FACILITY LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2011 AND 2010**

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A loan is considered impaired when, based on current information and events, it is probable that the Fund will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

*Credit Related Financial Instruments*

In the ordinary course of business, the Fund has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

*Operating and Non-operating Revenues*

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would not otherwise undertake.

All other revenues that do not meet the above criteria are classified as non-operating.

**NOTE 2 - DEPOSITS**

The carrying value and bank balance of the Fund's cash deposits at December 31, 2011 and 2010 was \$6,053,894 and \$4,468,329, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

*Custodial and Concentration of Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Fund does not have a formal policy that limits custodial credit risk for deposits. None of the Fund's deposits are covered by depository insurance. The Fund's deposits are uncollateralized and all of the deposits are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

**COMMUNITY WATER FACILITY LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 3 - LOANS**

A description of Fund loans is included under "Nature of Operations" in Note 1. A summary of the balances of loans follows:

	<u>2011</u>	<u>2010</u>
Loans, current portion	\$ 665,397	\$ 665,089
Loans, noncurrent portion	<u>15,478,250</u>	<u>16,650,510</u>
Total loans	<u>16,143,647</u>	17,315,599
Allowance for loan losses	<u>286,000</u>	<u>286,000</u>
Total loans, net	<u><u>\$ 15,857,647</u></u>	<u><u>\$ 17,029,599</u></u>

Changes in the balances of loans follows:

	<u>Amount</u>
Balance, December 31, 2009	\$ 17,723,577
Loan advances	738,000
Principal collections	<u>(1,145,978)</u>
Balance, December 31, 2010	17,315,599
Loan advances	-
Principal collections	<u>(1,171,952)</u>
Balance, December 31, 2011	<u><u>\$ 16,143,647</u></u>

Changes in allowance for loan losses are as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 286,000	\$ 286,000
Provision of loan losses	<u>-</u>	<u>-</u>
Balance, end of year	<u><u>\$ 286,000</u></u>	<u><u>\$ 286,000</u></u>

There were no impaired loans as of December 31, 2011 and 2010. There were no loans on nonaccrual status and no loans 90 days or more past due as of December 31, 2011 and 2010.

**COMMUNITY WATER FACILITY LOAN FUND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2011 AND 2010**

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**NOTE 4 - RELATED PARTY TRANSACTIONS**

The Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota.

The annual administrative fees charged by the Bank are equivalent to one-half percent of the outstanding loans. Administrative fee expense charged by the Bank totaled \$84,930 and \$87,932 for the years ended December 31, 2011 and 2010, respectively. The Fund owed the Bank \$20,738 and \$21,732 as of December 31, 2011 and 2010, respectively.

**NOTE 5 - LOAN COMMITMENTS**

The Fund is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Fund's exposure to credit loss is represented by the contractual amount of these commitments. The Fund follows the same credit policies in making commitments as it does for on-balance-sheet instruments. There was one commitment to extend credit for \$1,818,400 as of December 31, 2011 and December 31, 2010.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

**NOTE 6 - RISK MANAGEMENT**

The Fund is exposed to various risks of loss related to torts and errors and omissions. The Fund is administered by the Bank of North Dakota and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of \$2,000,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of the Community Water Facility Loan Fund, as of and for the year ended December 31, 2011, which collectively comprise Community Water Facility Loan Fund's basic financial statements and have issued our report thereon dated February 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered Community Water Facility Loan Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Water Facility Loan Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Community Water Facility Loan Fund's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

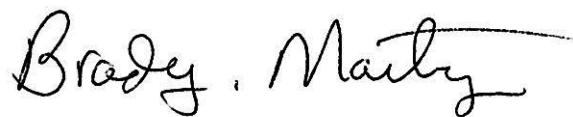
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether Community Water Facility Loan Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information and use of management, the North Dakota Industrial Commission, and Legislative Audit and Fiscal Review Committee, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style with a horizontal line extending from the end of the name.

**BRADY, MARTZ & ASSOCIATES, P.C.**

February 27, 2012



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**COMMUNITY WATER FACILITY LOAN FUND  
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE  
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE  
YEAR ENDED DECEMBER 31, 2011**

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The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

**1. What type of opinion was issued on the financial statements?**

*An unqualified opinion was issued on the 2011 financial statements.*

**2. Was there compliance with statutes, laws, rules, regulations under which the agency was created and is functioning?**

*Yes - A review was made of Chapter 6-09.5 and other pertinent chapters of the North Dakota Century Code and we felt the Agency operated within the statutes, laws, rules and regulations under which it was created.*

**3. Was internal control adequate and functioning effectively?**

*Yes*

**4. Were there any indications of lack of efficiency in financial operations and management of the agency?**

*No*

**5. Has action been taken on findings and recommendations included in prior year audit reports?**

*There were no prior year findings.*

**6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.**

*No*

**Audit Committee Communications:**

- 1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

None

- 2. Identify any significant accounting estimates, the process used by management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

None

- 3. Identify any significant audit adjustments.**

None

- 4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

None

- 5. Identify any significant difficulties encountered in performing the audit.**

None

- 6. Identify any major issues discussed with management prior to retention.**

None

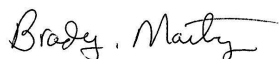
- 7. Identify any management consultations with other accountants about auditing and accounting matters.**

None

- 8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.**

Based on the audit procedures performed, the Program's critical information technology system is the Fiserv system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.



**BRADY, MARTZ & ASSOCIATES, P.C.**

February 27, 2012

**INDEPENDENT AUDITOR'S COMMUNICATION  
TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA**

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February 27, 2012

To the Industrial Commission  
State of North Dakota  
Bismarck, ND

We have audited the financial statements of the Community Water Facility Loan Fund for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Community Water Facility Loan Fund are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Fund's financial statements was:

Management's estimate of allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the allowance for loan losses in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 27, 2012.

*Management Consultations with Other Independent Accountants*

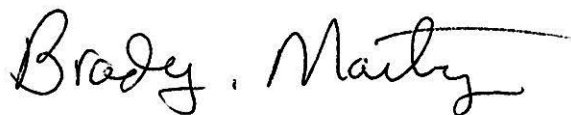
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the North Dakota Industrial Commission and management of the Community Water Facility Loan Fund, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**